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The FOOD MARKETING *Industry Speaks*

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The Food Marketing Institute (FMI) is a non-profit association that conducts programs in research, education and public affairs on behalf of its 1,500 members—food retailers and wholesalers and their customers. FMI's domestic member companies operate more than 17,000 retail food stores with a combined annual sales volume of $140 billion—half of all grocery sales in the United States. More than three-fourths of the FMI membership is composed of independent supermarket operators or small regional firms. Its international membership includes more than 100 members from 40 nations.

The Food Marketing Industry Speaks

In 1984 the United States economic figures were, in many cases, the best in decades. Gross National Product increased at a rate of 6.8 percent, its best performance in 34 years. At the same time the Consumer Price Index remained low with an increase of only 4.3 percent. The unemployment rate, another key economic factor, declined steadily in 1984 and was coupled with an all-time high in civilian employment of 106 million people. Another record breaking figure in 1984 was business productivity which rose at 3.2 percent for the year, the sharpest rise since World War II.

The strength of the United States economy in 1984 was also reflected in the year's economic figures for the food distribution industry. In 1984 the industry showed increases in gross margin, net profit, weekly store sales, and wholesale sales. Retail sales were one of the few economic measures to show a decrease, declining in both real and current dollars.

The Food Marketing Industry Speaks 1985 report examines all the interdependent parts of our industry that work together to put food on the dinner tables of America: the food producer, the manufacturer, the wholesaler, and the retailer. It begins with a review of the economy in general with an in-depth look at those aspects which affect our industry directly. It covers sales and profit trends, and provides a detailed look at several special interest areas.

Highlighted this year, for example, are distribution centers—both wholesale and retail, for dry grocery and frozen food centers. The report also examines in detail the meat department, the seafood department, electronic funds transfer, and productivity by store type.

Much of the data are compiled through FMI's annual surveys of the industry. FMI gratefully acknowledges all those companies who have contributed their time and effort to fill out the questionnaires. A detailed explanation of the study is provided in the appendix.

Industry information is also drawn from other FMI research reports such as *Operations Review* and *Facts About Store Development*. The Institute would also like to acknowledge data gathered from *Forbes Magazine*, the U.S. Departments of Agriculture and Commerce, and many other business and government publications.

While this report contains the complete analysis for 1984, it does not include the cross tabulations of survey data from which this analysis was developed. This information, providing a more thorough look at industry activity, is contained in a separate, supplemental report entitled *Detailed Tabulations* from the *Food Marketing Industry Speaks, 1985*. Another publication, *Trends — Consumer Attitudes and the Supermarket, 1985*, parallels *Speaks* by presenting the state of the industry from the consumer side. *Trends* explores consumer attitudes toward the economy and the supermarket, and analyzes changes in consumer concerns and shopping patterns.

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In 1984

Retail Sales Gain Over Previous Year	7.3%
Wholesale Sales Gain Over Previous Year	6.8%
Weekly Sales Per Square Foot	$8.00
Sale Per Customer Transaction	$15.36
Sales Per Labor Hour	$90.85
Gross Margin With Warehouse	24.1%
Gross Margin Without Warehouse	21.6%
Net Profit (before taxes)	1.6%
Weekly Store Sales	$175,900

These operating results are typical of FMI's member supermarkets. They represent average performance based on data from a cross-section of our membership.

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Economic Climate

The year 1984 produced aggregate economic numbers which were quite good by any standards. But these averages mask a recovery with very definite regional patterns, a troubled farm sector, and cracks in the traditionally solid financial community foundation. Beginning in mid-1982 our current recovery has produced:

- The greatest GNP increase in the last five recoveries. The American economy expanded at a 6.8 percent rate for the year, its best performance in 34 years.
- The lowest increase in inflation in the last three recoveries. The vigorous expansion was accompanied by a steadily declining inflation rate. At 4.3 percent, the 1984 Consumer Price Index increase remained low, while large productivity gains were taking place at the same time.
- The highest level of total civilian employment ever recorded. More than three million more people found jobs last year, bringing total civilian employment in 1984 to an all-time high of over 106 million people. The unemployment rate also declined steadily throughout 1984 to reach 7.5 percent for the year, back to a level approaching 1980-81 unemployment rates.
- The greatest jump in consumer spending in the last five recoveries. In deflated dollars, the biggest rise in disposable personal income in two decades—6.8 percent—occurred in 1984. Per capita disposable income, the amount of money available after taxes, was almost $11,000 per person, in current dollars.
- Business productivity figures that broke Labor Department records. The "productivity index" measures efficiency in terms of the volume of goods and services that the economy produces in an hour of paid working time. Total business productivity rose 3.2 percent for the year, the sharpest rise since World War II.
- And, finally, by far the greatest increase in business investment in the last five recoveries. High internal rates of return have prompted businesses with good cash flows to invest in real assets such as plant and equipment.

By many measures, this recovery has robustly outperformed its predecessors. And it's still relatively young in historic terms, leaving room for further growth.

But there were some soft spots. For starters, the strong dollar and resultant weak export market caused heavy industry to lag behind in this recovery. Many of these same areas of the country were also hard hit by agricultural stress.

Farmland prices peaked in 1981. After three decades of increase, declines of almost 30 percent are now common in the Corn Belt and Upper Midwest. The U.S. Department of Agriculture, in assessing the severity of financial problems, now classifies 6.6 percent of all farms as "very highly leveraged," and an additional 11 percent as "highly leveraged." This totals to less than 20 percent of all farms, but regional concentration magnifies the problem.

A more recent problem has been

the early 1985 failure of the Ohio Deposit Guarantee Fund followed by the failure of two government securities dealers — one in Florida and another in New Jersey. None of these failures seem likely to multiply, but they have certainly injected a new mood of caution throughout the financial community.

Food Production

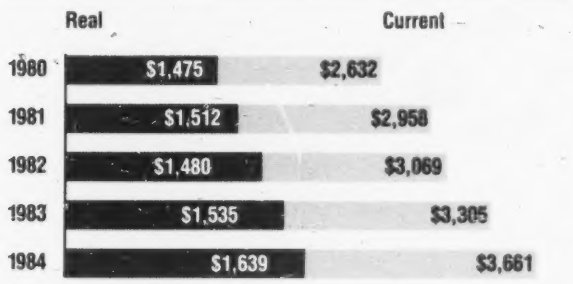
The strong harvests of 1984 underpinned a rebound for agriculture last year following 1983's devastating performance. The combined impact of the PIK (Payment In Kind) program and the summer drought made 1983-84 the worst crop year for farmers and rural communities in modern memory.

Soaring corn harvests in 1984 led crop production's turn from 1983 lows. Although corn production did not come back up to 1981-82 levels last year, excellent conditions enabled farmers to harvest 106.6 bushels of corn per acre, which were in line with 1981-82 levels and way ahead of 1983's low 81.1 bushel level. This meant that corn prices returned to 1981-82 levels of about $2.70 a bushel, compared to $3.25 in 1983.

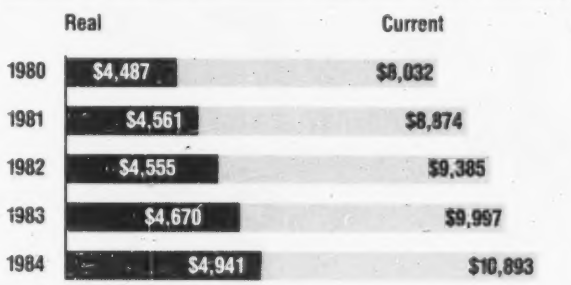
Although wheat production did not return to the high levels of 1981-82, it topped 1983 figures. Coffee production exceeded 1983 levels with 12.38 billion pounds this year, compared to 11.88 billion pounds.

For the year, beef and poultry production made slight gains, however, pork and milk production both declined. Less milk-per-cow and fewer cows set back milk production. Strong poultry prices and lower feed costs helped poultry production maintain an eight-year track record of continued growth.

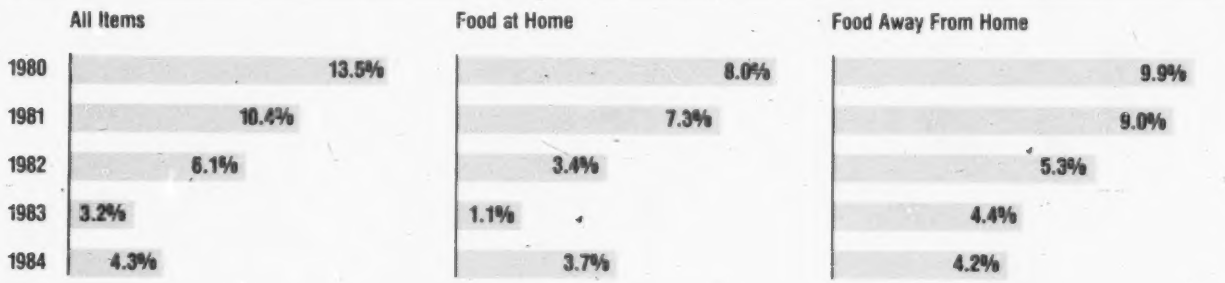
Gross National Product (Billions)



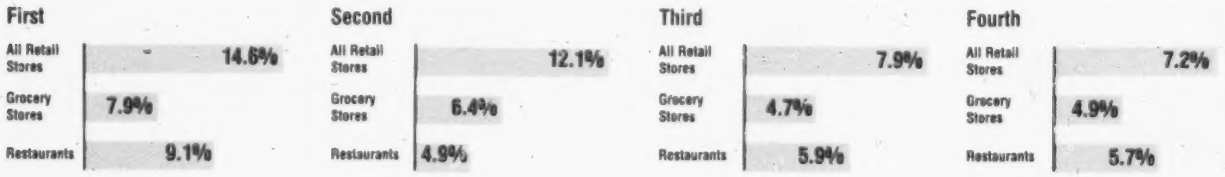
Per Capita Disposable Income



Consumer Price Index



Sales Increase Over '83 By Quarters



Wholesaling

In current dollars, sales increases for wholesalers averaged 6.8 percent in 1984, slightly below retailer gains but a strong rebound from the 4.1 percent level of 1983. However, in deflated dollars, wholesale sales increases managed to keep pace with 1983's increase at 3.0 percent.

The average sales per retail store served increased again in 1984. In 1984 it was $2.21 million and in 1983, $2.18 million. The services most often offered by wholesalers to their members included an advertising program, individual retail pricing, product movement data, and handling of generic label stock. Almost 97 percent of the wholesalers offered these services. Equipment procurement, handling of private label stock, and gross margin reports by item were offered by more than 90 percent of the wholesalers.

Services Provided to Membership

Advertising Program	96.8
Individual Retail Pricing	96.8
Product Movement Data	96.8
Handle Generic Label	96.8
Equipment Procurement	93.5
Handle Private Label	93.5
Gross Margin Report By Item	90.3
Real Estate & Store Engineering	80.6
Retail Accounting	74.2
Interior Decor & Design	74.2
Discount Programs	74.2
Education/Training	67.7
Member Payroll	67.7
Scanning Support	64.5
Equipment & Fixture Financing	58.1
DSD System	58.1
Lease Financing	54.8
Space Allocation	51.6
Other	3.2

Retailing

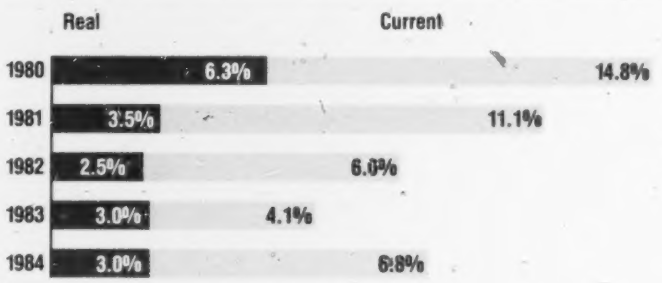
Total retail sales increased 7.3 percent in 1984, slightly behind last year's pace. That figure translates to 3.5 percent when adjusted for inflation. Although sales volume continues to grow, the percentage increase from year to year has declined each year since 1980 in current dollars. In deflated dollars it has declined from 1983 to 1984.

For identical stores (stores that were in operation in both 1983 and 1984), the sales increase was a positive 1.8 percent in real dollars and 5.6 percent in current dollars. The rate of growth has decreased in current dollars every year since 1978. It also decreased in real or deflated dollars compared with last year. When we look at total sales versus identical sales, we can see that a substantial amount of total sales growth continues to be the result of sales generated by new stores. This may indeed be a mature industry. But it is far from stagnant.

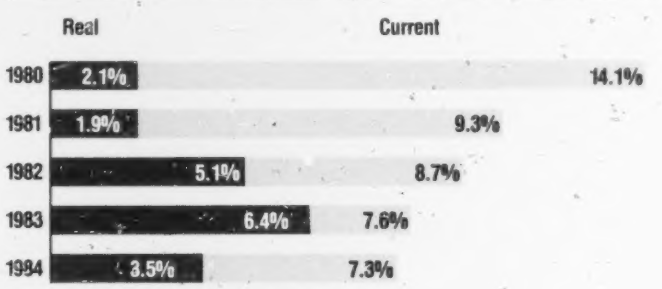
The "eating-out boom" of 1982-83 appears to have peaked, according to Department of Commerce statistics on restaurant sales. From a high gain of 13.6 percent in early 1983, restaurant sales increased only 5.73 percent in the fourth quarter of last year. There is some indication that March eating and drinking place sales were strong, but first quarter 1985 government figures show only a 3.5 percent sales gain versus a 10 percent growth rate for the first quarter of 1984.

According to the annual *Forbes* study of industrial performance, the supermarket industry's return on equity was 13.3 percent for 1984, a five-year low. This drop reflects both the tough competitive conditions in our industry and the increasing investment in large new stores. Return on equity measures net income as a percent of the owners' investment. Overall, the *Forbes* study ranks supermarket return on equity 14th out of 42 major industries over the last year.

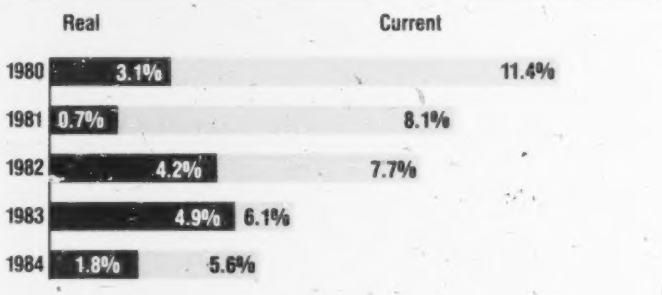
Wholesale Sales Increase



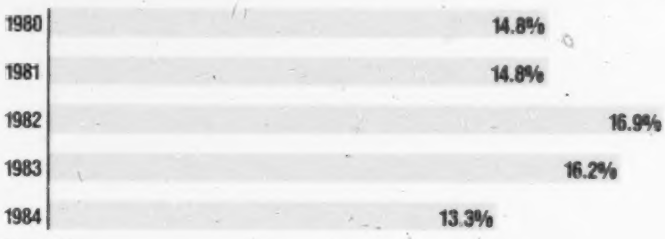
Retail Sales Increase



Identical Store Sales Increase



Return on Net Worth*



*Source *Forbes*

Gross Profit Margin

Gross profit margins, total sales minus the cost of goods sold, continued their upward trend again last year as cost pressures continued; with 24.13 percent for companies with warehouses and 21.64 percent for companies without them. These figures compare to 23.72 percent and 21.50 percent respectively in 1983. The store-door margin, which represents gross margin minus warehouse and delivery costs, extended its record to five years of consecutive increases, with 20.17 percent in 1984 compared to 19.41 percent in the previous year.

Net Profit Margin

The net profit margin, before taxes, was 1.6 percent in 1984, the highest it has been since 1979. Net profit margin is calculated by dividing net profits by net sales. Quarterly net profits showed the third and fourth quarters to have been the most profitable.

Productivity

Reflecting the pace of new store construction, the typical supermarket in 1984 measured 29,600 square feet and carried an average of 15,379 items, costing an average of $1.34 each. That compares to 28,000 square feet of total space, containing 16,719 items, averaging $1.28 in 1983. Our supermarkets continue to grow in size and diversity.

Combination stores led with 48,409 square feet and 23,000 items carried at an average price per item of $1.36. Combination stores were followed in size by super stores with 36,000 square feet; warehouse stores, 31,750 square feet; and conventional stores at 18,125 square feet. At a distant second to combination stores, super stores carried an average of 16,375 items; tied for third place, conventional and warehouse stores carried an average of 12,500 items. Combination stores were the only store type to top the industry average of $1.34 retail price per item. For super stores the average price was $1.24. For conventional stores it was $1.23 and for warehouse stores it was $1.18.

Percentage of Operation Supplied by:

	All Companies	Larger Retailer	Independent
Own Warehouse	65.3	67.0	16.3
Voluntary Wholesaler	3.8	3.3	23.0
Cooperative Wholesaler	3.6	3.1	22.0
Unaffiliated Wholesaler	2.1	2.0	9.7
Direct Vendor Deliveries	24.8	24.2	25.2

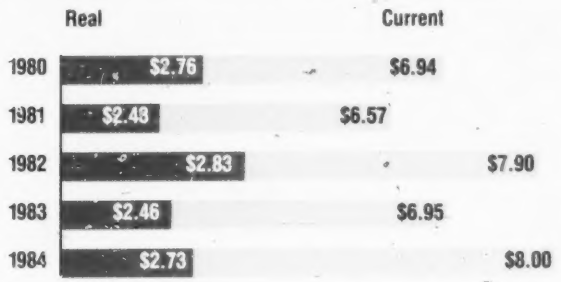
Combination stores also led in weekly sales with $301,669, followed by super stores, warehouse stores, then conventional stores. Typical weekly sales per supermarket were $175,900 in 1984. 1984 marked the first time the high end of the middle range broke $200,000.

The typical sale per customer transaction was $15.36, compared to $14.60 in 1983. It went up in both current and deflated dollars. Warehouse stores took top place with a typical transaction per customer of $21.92, one of the real success secrets of this format.

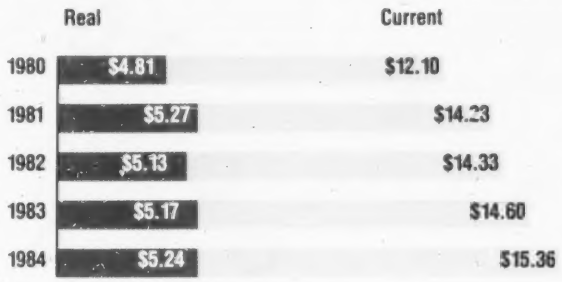
At $90.85, typical sales per labor hour nearly held steady in current dollars but decreased in deflated dollars. Warehouse stores reported the highest sales per labor hour with $128.63, down from $130.80 last year. Super stores had $86.22 and conventional stores reported $84.38.

Weekly sales per square foot of selling area increased to $8.00 in current dollars, up from $6.95 in 1983. When adjusted for inflation the figure also increased. Combination stores had the highest average weekly sales per square foot, followed by warehouse stores, super stores, then conventionals.

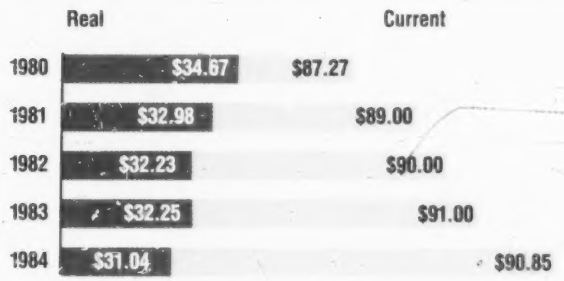
Sales Per Square Foot



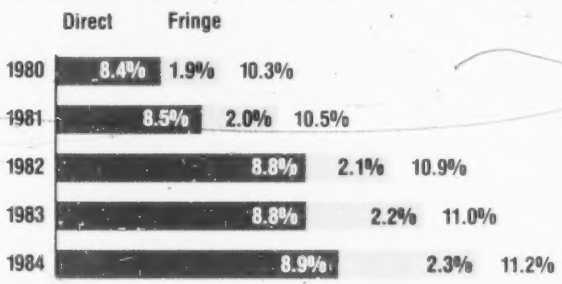
Sale Per Transaction



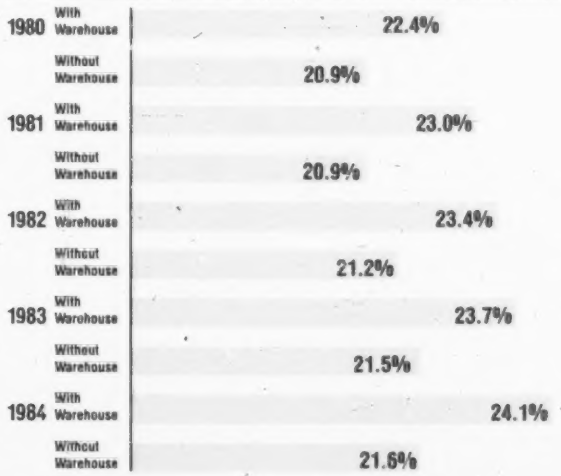
Sales Per Labor Hour



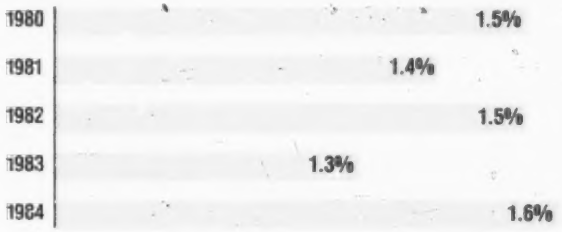
Total Store Labor Cost



Gross Profit Margin



Net Profit Margin before taxes



Dry Grocery Distribution Centers

Frozen foods centers' larger counterparts, dry grocery distribution centers, typically measured 271,000 square feet and stocked 5,822 items. Unlike frozen food distribution centers, dry grocery retail-operated centers were smaller than wholesale-operated centers.

The dry grocery distribution center typically received 190 truckloads a week and had just under 200 outbound loads among the 75 supermarkets it served. This typically added to almost 200,000 cases shipped per week. The typical number of inbound rail cars per week continued to decline. In 1984 it was six; in 1983, 12; and in 1982 it was 15. Eighty-four percent of the time, dry grocery items were manually selected, with select-to-conveyor used 15.5 percent of the time. The majority of dry distribution centers operated two to three shifts per day. Typically the dry grocery distribution center had 107 employees, with the middle 50 percent of the responses ranging from 59 to 155.

Frozen Food Distribution Centers

Frozen food centers typically carried a thousand items. They shipped 80 cases per total labor hour and stored and replenished 360 cases per direct labor hour. Frozen food centers received 38 inbound truckloads in a typical week and were typically 38,256 square feet in size. Retail frozen food centers were typically larger than wholesale centers.

Frozen centers typically employed 18 people that worked two to three shifts per day. Eighty-one was the median number of supermarkets served by a frozen food distribution center. Inbound loads were received in the form of 38 truckloads and one rail car per week. Typically there were 45 outbound vehicle loads per week, with more than 400 orders processed per week.

Number of Shifts Operated Per Day in Distribution Centers

	All Centers	Wholesale Centers	Retail Centers
Dry Grocery			
One up to two	17.9%	7.9%	24.6%
Two up to three	52.6%	60.5%	47.4%
Three up to four	29.5%	31.6%	28.1%
Frozen			
One up to two	28.8%	12.5%	40.0%
Two up to three	57.6%	70.8%	48.6%
Three up to four	13.6%	16.7%	11.4%

Microcomputers

The backbone of the food marketing business, distribution centers are adapting to the high-tech eighties like the rest of the industry. Over half — 58.1 percent — of all companies surveyed used microcomputers in their distribution centers. Microcomputers were most often used for spread sheet analysis, word processing, and productivity control. Over a fifth of the companies linked a majority of their computers with an in-house network.

Use of Microcomputers in Warehouses

Spread Sheet Analysis	61.9%
Word Processing	52.4%
Productivity Control	52.4%
Labor Standards	38.1%
Inventory Control	33.3%

Employee Incentives

Slightly more than 32 percent of the non-salaried distribution center employees received incentives associated with work productivity. Almost 26 percent of the salaried employees and 21.6 percent of the truck drivers received incentives. Annual performance reviews, annual merit increases, time off with pay, and gift awards were the most often offered incentives for retail companies. The most often given in wholesale companies were annual performance reviews, gift awards, special-purpose cash awards, year-end bonuses, and contest awards. For all companies cash awards accounted for 88.9 percent of all incentives and non-cash accounted for 11.1 percent.

Percentage Of Companies Offering Incentives

	All Companies	Retail	Wholesale
Salaried Warehouse Employees	25.7%	22.2%	31.0%
Non-Salaried Warehouse Employees	32.4%	33.3%	31.0%
Truck Drivers	21.6%	20.0%	24.1%

Average Total Area for Frozen Food Distribution Centers

Total Centers	38,256 square feet
Retail Centers	39,311 square feet
Wholesale Centers	30,000 square feet

Average Number Of Items Available— Frozen Centers

Total Centers	1,000 Items
By Size Of Center	
Less Than 10,000	237
10,000 - 19,000	900
20,000 - 39,000	907
40,000 - 79,000	1,019
80,000 or more	1,450

Meat Department

The typical meat department took up 12 percent of total store selling area, while the portion of total store revenues generated from meat sales weighed in at 18 percent. However, this total revenue share was a decline from our 1981 survey figure of 20 percent. Red meat sales have declined as have total meat sales; but with the growth of poultry, pork, and seafood, we see little impact over time on the physical size of this department.

In 1984 a profile of the typical meat department looked like this:

- Five employees made up its staff. Smaller companies had four, and larger companies had six employees each. Wages, salaries, and fringe benefits accounted for 10 percent of meat department sales.
- The median meat sales per labor hour equaled $129 for all stores.
- Fresh meat, including beef, lamb, pork, and veal, accounted for more than half of all meat sales. Poultry claimed another 18 percent, processed and frozen foods another 23 percent, and fish 2.9 percent. Over 60 percent of beef was sold as boneless. In contrast, more than four-fifths of all chicken and pork products were sold as bone-in.
- Over 90 percent of ground beef was ground at the store.
- The most popular type of meat display was the multi-deck case. Four out of five companies reported using multi-deck cases for fresh meats. Multi-deck displays also stacked up well for processed meat cuts.

Food retailers are always in search of greater efficiencies. Regarding the meat department, this is reflected in a trend toward purchasing primals or subprimals instead of whole carcasses. This permits meat managers to buy the cuts their customers want, and in quantities they can sell. Smaller cuts also reduce the time required for in-store packaging. Most fresh beef today arrives at the supermarket as either subprimals or primals; with only 4.4 percent of stores reporting they received whole carcasses.

Open dating information on fresh

Percentage of Fresh Beef Sales By Type USDA:

Prime	1.3%
Choice	79.1%
Good	1.1%
Standard	.2%
Ungraded or House Brand	18.3%

Open Dating for Fresh Cut Meat

Sell By Date	63.9%
Better If Used By Date	.3%
Expiration Date	27.7%
Pack Date	8.5%
Not Dated	5.4%

Meat Related Customer Services Offered

Meat Recipes	87.6%
Store Coupons	79.0%
Nutrition Information	62.4%
Meat Charts	50.3%

meats has become accepted fare in many supermarkets as a way for both shoppers and stores to gauge the freshness of these items. On fresh cut meat packages, companies were twice as likely to use the "sell-by-date" method as the "expiration date." Private label, prepackaged processed meats also carried "sell-by-date" information slightly more often than "expiration date."

At stores that have scanning equipment, meat and seafood products were frequently among those items now being scanned. Seven out of eight stores (87.3 percent) that have scanning equipment included meat products in the items they scan at the checkout line. Those that did scan meat products, scanned about two-thirds of them.

Stores are also fond of boosting sales by offering customers meat-related services, often connected with display promotion. Meat recipes were the most popular such service, followed by store coupons for meat items, nutrition information, and meat-cutting charts and explanations.

Seafood Department

Practically all stores keep plenty of frozen seafood on hand. The big news in seafood in 1984 was that a whopping 85.8 percent of all stores included in our survey now carry fresh seafood — and in abundance. In fact, fresh seafood now accounted for nearly half of all seafood sales for stores that offer this category — 42 percent, versus 57 percent for frozen seafood.

Stores that carry fresh seafood typically stocked about 18 different items. The typical store's total number of seafood products — fresh and frozen combined — was more than 77. Frozen seafood was more likely than fresh seafood to be included in the meat department with 94.4 percent of the stores including at least some frozen seafood items in the meat department. Almost 39 percent carried some frozen items in the seafood department, and 17.9 percent in other departments. Four out of five stores (80 percent) scanned fresh seafood products and those that did, scanned 48 percent of them.

Delis

Delicatessens have been growing rapidly in almost all areas of the country, although they still lag in the Southeast. Only 3.4 percent of supermarkets in our national sample reported not having a deli. Almost three-quarters had a separate deli department, while another one-quarter included it as part of the meat department.

Electronic Funds Transfer

Decontrol of financial services and the shift in banks' focus to consumers has also brought the banking business into the supermarket. Automated teller machines were present in 15 percent of supermarkets nationwide. That number has nearly doubled since 1983's 8.4 percent and is up from 4.5 percent in 1982. Larger retail operators were twice as likely to have ATMs in their stores as independent store operators.

Supermarkets were compensated for having non-supermarket owned ATMs in their stores by receiving:

- A combination of space and transaction fees—44.6 percent;
- Transaction fees—43.9 percent;
- Space rental—3.8 percent;
- Other—7.7 percent.

Consumers used supermarket ATMs to conduct a variety of financial chores. More than three-quarters of the transactions were to dispense cash, up from 65.7 percent in 1983. Both balance inquiries and account/balance transfers were down compared to last year, and depositing money dropped off sharply. But one must remember that not all states allow deposits.

On a scale of one to five, with five being the most positive, retailers rated three ATM factors better than a "4": customer convenience, ease of use, and overall performance. Four factors ranged between "3" and "4", with only reducing store operating expenses falling below 3. The ratings did not vary much from the earlier study although some went up and others went down slightly.

As to the important question of the effect of ATM services on check and cash volume at the checkout counter, for the majority of stores the jury is still out. Cash volume at the cash register remained the same in 67.9 percent of companies with ATMs. Eighty percent of companies with ATMs reported no effect on check volume at the checkout counter.

Technological Developments

1984 and 1985 are proving to be years of great technological advancement for the food industry. Several industry studies were undertaken, with the objective of making the grocery industry's technological systems more efficient. Five of the major projects are the Direct Product Profit Study, the UPC File Maintenance Program, the Coupon Redemption

Percentage Of Companies Including Fresh Seafood Items In:

Seafood Department	50.2%
Meat Department	87.6%
Another Department	8.9%

Average Number Of Seafood Items Carried

Fresh Seafood Items	17.8
Frozen Seafood Items	57.8
Other Seafood Items	1.6
Total Seafood Items	77.2

Rating ATM Operation

Customer Convenience	4.1
Ease of Use	4.0
Overall Performance	4.0
Hardware Reliability	3.9
Maintenance	3.8
Customer Acceptance	3.5
Customer Usage	3.2
Store Savings	2.8

*1 Indicating Poor and 5 Indicating Excellent

ATM Ownership

Third Party Service/Provider	37.4%
Bank	34.2%
Supermarket Company	19.0%
Other Financial Institution	2.1%
Other	7.3%

Study, the Coupon Scanning Program, and the DSD/UCS Study.

The Direct Product Profit (DPP) Study centers on the concept of calculating the net profit contribution of individual items sold in the store. Although the concept of DPP is not a new one, it has only recently become a cost-effective method for calculating profits. Due to technological advances which have made personal computers and electronic spread sheets widely available, DPP is now feasible for the grocery industry. The goal of the DPP Study is to create a unified methodology for DPP calculations which will allow companies to study the efficiencies of their system. The project will result in a standard methodology for DPP calculations and an extensive education program available to the entire food industry.

A study of coupon redemption practices was undertaken with the goal of remedying the problem that develops when manufacturers fail to provide retailers with reasons for coupon rejections. Without this information, retailers are unable to provide supporting evidence that the redemptions were legitimate or identify the source of any internal control problems. The objectives of the coupon redemption study are to develop an understanding of the magnitude of the problem; to help retailers understand the need for redemption monitoring procedures; and to suggest communication guidelines for the information which manufacturers should provide with coupon chargebacks.

In late 1984 UPC guidelines for scannable coupons were finalized. With more and more coupons now having bar codes on them, retailers are starting to look at scanning coupons. To help in this effort, a study has been initiated to assess the costs and benefits for retailers interested in using coupon scanning.

Another task force was created to take a fresh look at direct store delivery. The effort here is a two-pronged one. First, protocol will be established for applying the Uniform Communication System (UCS) to DSD. This application will permit electronic information exchange for DSD products. Second, the task force will reexamine total DSD system practices at the store level.

Almost all of these system improvements require accurate UPC information. Several projects are underway to improve the integrity of this system. For example, in 1985 a UPC File Maintenance Program will be developed that will assist companies in making better use of their UPC file space, and at the same time maintaining accurate UPC item files. Over the past few years, many retailers and wholesalers have found UPC item files nearing their physical capacity. To relieve the system overload, this program establishes a procedure by which the distributor sends the manufacturer information on UPC items in his files. The manufacturer matches the codes, identifies whether each product offering is still active, and returns the updated list to the distributor to implement the file changes.

Store Development

Store Activity

In 1984, 4.3 percent of all stores were opened, 4.1 percent were newly constructed, and almost seven percent were closed. Supermarkets got younger in 1984. Store opening and closing activity last year brought the average age of a supermarket, since its last major remodel, to 6.5 years. That's nearly two years younger than the 1983 average age of 8.4 years. Every type of store except the warehouse store fits this pattern. They went from three years in 1983 to 6.4 years in 1984.

Almost two-thirds of all stores were leased from another company. Another third were owned by the supermarket company itself. About five percent were leased from a subsidiary. For existing stores, minimum rent per square foot per year and overages stayed the same as a year ago, $3.31 and 0.9 percent respectively. Expected total rent was down.

New Stores

The total size of a typical new store was 39,800 square feet in 1984, up from 38,000 square feet in 1983, and required 12 months from ground breaking to break even. This figure has stayed the same over three years.

Almost half the stores opened in 1984 were super stores. About 70 percent of the stores closed were conventional stores. It's important to note that there's been a blending of store types occurring that has made it increasingly difficult to define the various store types precisely. Conventionals are getting larger, super stores are adding more general merchandise, and warehouse stores are adding specialty departments. Two different observers might well label the same store a "super" and a "combo" respectively — or even a large conventional. Even further blurring of the traditional categories is likely as the evolution in store formats suited to customers continues.

For new stores, minimum rent rose in 1984, but overages declined. The mean expected total rent was $5.90 per square foot per year, down from $6.09 in 1983. It was highest for combination stores, followed by warehouse stores, super stores, and conventionals.

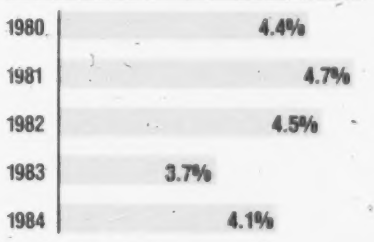
Closings

During 1984, 6.9 percent of all supermarkets closed. Supermarket owners reported that 70.7 percent of the stores that were closed were conventional stores. Almost 24 percent of the stores were super stores; 4.1 percent were combination stores; and less than one percent of the stores were either warehouse stores or limited assortment stores.

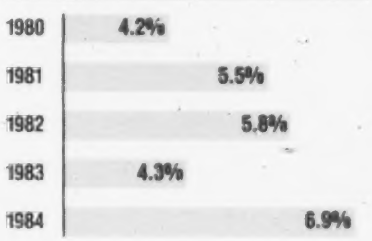
Remodeling

The typical supermarket that was remodeled in 1984 cost $500,000 for remodeling, compared to $400,000 a year earlier. As in 1983, companies again said that it was 10 years from their store's first opening to its present remodeling. And 1984 also saw no change in the number of years from the last major remodeling to the present remodeling for older stores. That number was still seven years.

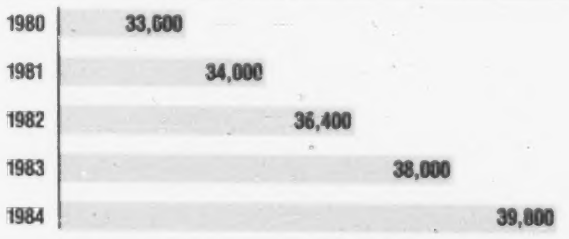
New Stores Opened



Stores Closed



New Store Total Area in Square Feet



Appendix

About the Study

This year's report is the result of food marketing companies participation in several FMI surveys, *Retail Operations, Distribution Center Operations, Operations Review,* and *Facts About Store Development.* Nonmembers as well as members were invited to provide company data in many of the surveys. The sample descriptions for five of these questionnaires are presented on the next page. These numbers represent information from approximately 18 percent of the companies invited to participate.

All averages shown in this report are median figures, except where noted. Medians provide a better industry average because the figures are not subject to distortion by unusual extremes. This is very important when a few companies differ very significantly from the marketing average.

When measuring real growth in retail sales and productivity, *Speaks* uses the CPI food-at-home index and its annual percentage increase as deflators. To deflate a dollar figure, the CPI food-at-home number is used. For example, to deflate 1984 "sales per square foot" (see page 9) divide the current dollar figure ($8.00) by the 1984 CPI food-at-home index number (292.6). Then multiply the total by 100 ($8.00 ÷ 292.6 × 100 = $2.73 "sales per square foot" in real or deflated dollars). On the other hand, to deflate a percentage, use the inverse of the CPI food-at-home percent change. To deflate 1984 "retail sales increase" (see page 7) add one to the 1984 current dollar percentage (1 + 0.073); multiply this by the inverse of the 1984 CPI food-at-home percent change plus one (1 ÷ 1.037). The deflated number is 3.5 percent. The table below charts these deflators.

In this report, FMI defines a supermarket as a retail food store with annual sales of at least $2 million. This report is a summary of key findings of the surveys. Some, however, may have the need for more detailed facts and figures. The supporting tables for this report are found in the companion reports entitled *Detailed Tabulations* from the *Food Marketing Industry Speaks, 1985* and in *Facts About Store Development.*

Index For Deflating Annual Supermarket Sales

	CPI Food at Home	% Increase
1974	162.4	14.9
1975	175.8	8.3
1976	179.5	2.4
1977	190.2	6.0
1978	210.2	10.5
1979	232.9	10.8
1980	251.5	8.0
1981	269.9	7.3
1982	279.2	3.4
1983	282.2	1.1
1984	292.6	3.7

Trends in Operating Results

	1980	1981	1982	1983	1984
Gross Profit with Warehouse	22.4%	23.0%	23.4%	23.7%	24.1%
Gross Profit Without Warehouse	20.9%	20.9%	21.2%	21.5%	21.6%
Sales Per Labor Hour	$87.27	$89.00	$90.00	$91.00	$90.85
Sales Per Square Foot	$ 6.94	$ 6.75	$ 7.90	$ 6.95	$ 8.00
Sale Per Customer Transaction	$12.10	$14.23	$14.33	$14.60	$15.36
Average Hourly Labor Cost*	$ 6.57	$ 7.64	$ 7.93	$ 8.12	$ 8.58
Store Labor Expense	8.4%	8.5%	8.8%	8.8%	8.9%
Fringe Benefit Expense	1.9%	2.0%	2.1%	2.2%	2.3%
Net Profit (before taxes)	1.5%	1.4%	1.5%	1.3%	1.6%

*Excluding fringe benefits

Sample Description For *Food Marketing Industry Speaks*

Retail Operations Questionnaire

(Base) Company Retail Sales (millions)	Sample Companies (283)
Under $10	30.7%
$10-$30	18.0%
$31-$100	20.5%
$101-$250	14.1%
$251-$500	7.4%
Over $500	9.2%
	100.0%

EFT Questionnaire

(Base) Company Retail Sales (millions)	Sample Companies (340)
Under $10	36.5%
$10-$30	18.2%
$31-$100	16.5%
$101-$250	9.7%
$251-$500	7.6%
Over $500	11.5%
	100.0%

Distribution Center Operations Questionnaire

(Base) Company Sales (millions)	Sample Wholesale Companies (31)	Sample Retail Companies (45)
Under $30	3.2%	—
$31-$100	19.4%	8.9%
$101-$250	32.3%	17.8%
$251-$500	16.1%	22.2%
Over $500	29.0%	51.1%
	100.0%	100.0%

Retail Fish and Seafood Operations Questionnaire

(Base) Company Retail Sales (millions)	Sample Companies (197)
Under $10	31.0%
$10-$30	16.8%
$31-$100	17.8%
$101-$250	11.7%
$251-$500	10.2%
Over $500	12.7%
	100.0%

Retail Meat Operations Questionnaire

(Base) Company Retail Sales (millions)	Sample Companies (232)
Under $10	30.6%
$10-$30	13.8%
$31-$100	21.1%
$101-$250	13.8%
$251-$500	8.2%
Over $500	12.5%
	100.0%

READER'S COMMENT FORM

Report: The Food Marketing Industry Speaks 1985

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